ORG 1 Research Institute of America

Research Institute Recommendations

SECTION 1 OF 2 SECTIONS

P-SANDERS, Sol
(orig under ORG 1 RIA)

INCLUDING
REPORT OF THE MONTH

Friday, December 7, 1973

New energy chief William Simon is getting very high marks from Washington pros on his energetic takeover of a rough job. Simon has lost no time in starting to assemble a topflight team.

First problem being faced by the new team is communications. There's been so much misinformation, so many rumors circulated, that it'll take a major effort just to counter the overpessimism.

In practical terms, Simon's aim is to "share the shortages." His toughest job, as his top staffers see it, will be to resist heavy pressures from industries & unions for special treatment. Already, Teamsters Union leaders and their trucker counterparts are seen as trying to cash in their '72 campaign support chips.

Total energy shortfall to be shared out isn't horrendous. Best estimates now put supplies from all sources in early 1974 at 6%-7% below total demands for all energy uses in early '73. Adding year-to-year growth, that's about a 10% net shortage.

Eliminating waste, and a few frills, plus minimal controls, could easily take care of most of this. And some price increases would bring enough new supply, trim enough demand, to do the rest.

The solution isn't that simple, however, for many reasons. First, energy isn't always where it's needed, in the right form. And sources aren't interchangeable -- autos can't use electricity, electric furnaces can't burn natural gas -- even at high costs.

Second, there's no assurance supplies will get where needed. Price controls, state and local regulation, environmental rules, all act to limit and distort normal energy distribution channels. And, there's a small but growing amount of plain black-marketing.

The energy agency sees its job as clearing the roadblocks to the equitable distribution of all available fuels and energy. Nobody will get all they want, if the system really works well, and few will even get what they now think is their minimum need. But except for the inevitable snafus, there need be very little of the plant shutdowns and other nightmares being predicted.

Interest rates: Lendable cash is the latest critical item on the list of energy crisis casualties. Borrowers are finding charges higher, terms tighter, in the sudden credit turnaround.

Giant lenders, made unusually cautious by recent events, have been reviewing their positions, holding up major decisions. Meanwhile they've been retreating into ultra-safe gov't paper.

The result: an upward reversal of the trend in short-term rates.

Long-term rates are feeling the same effects, to a degree. The energy crunch hit the markets just when a heavy load of bonds was scheduled for issue, resulting in "congestion," higher yields. But the swing in rates has been small, isn't expected to last.

RIA Prediction: The short-term rate rise will peter out, then become a drop again, as energy & fuel jitters quiet down. It has been uncertainty more than anything, specialists agree, that froze the flow of funds into the short-term money markets.

An energy-crisis tip for firms with nonunionized employees: If you hope to facilitate car-pooling by distributing name lists, thus helping workers create pools -- think hard before doing it. Unions salivate at the prospects of seeing name & address lists.

Reason: Few tools are more helpful in starting a union drive. Indeed, the existence of such lists might figure in inspiring one. If you fear being a target, consider arranging the pools yourself; contact individual employees, put them in touch with others, etc.

One note of caution, though, is in order concerning this: Check liability implications of any such moves with your lawyers.

The social security system is heading into stormy weather. Worker dissatisfaction is mounting as payroll taxes keep rising. Congress is feeling the heat even as it approves another increase, fifth in five years, and may soon review pay-as-you-go financing.

Point is that of the $4.6 billion paid in monthly benefits, retired workers get only $2.4 bill. The rest amounts to welfare in some form. Moreover, better than half of American households pay more in social security taxes than they do in income taxes.

In other words, workers help support millions their own age, who for one reason or another do not earn income from employment. As this fact sinks fully into the public mind, resentment rises. Social security, still seen as insurance to protect the elderly, is now largely an income transfer program with welfare features.

Next Jan., for example, a supplemental security income plan, known as SSI, will replace the old age assistance program, OAA. This is the welfare program for older people now run by states. Some SSI payments will exceed benefits now paid retired workers.

That's political dynamite lawmakers ignore at their peril. It is already raising questions about paying for the whole system, with yearly increases for those who do not contribute anything.

Lawmakers are thus confronted with the problem of financing. Some have argued for years that social security is the wrong tool,

Copyright 1973 by The Research Institute of America, Inc. Vol. 24 No. 49 ... The Research Institute of America, Inc., 589 Fifth Ave., N.Y., N.Y. 10017. $36 per yr. Second Class postage paid at New York, N.Y., and at additional mailing offices.

that general revenues should finance income maintenance programs. It may be too late to take that road in the foreseeable future. Public support wasn't strong enough in boom times, won't be now.

As the payroll tax bite deepens, unemployment grows in '74, all this may come to a head, especially with an election at hand. If the money comes out of voters' hide, they want a voice in it.

Means Congress could face another, serious taxpayers' revolt, demands that benefits go only to those who earned them at work.

Mideast peace talks: a historic "first" no one is ready for, but which will take place because all the alternatives are worse. Here is a rough timetable the U.S. expects developments to take:

Next 10 days, intensified wrangling over the Suez cease-fire, outbursts of fighting, possible postponement of the Dec. 18 start. Israel will resist strong U.S. pressure to make some withdrawals, Egypt and Syria will threaten to scuttle the talks if she doesn't.

Sooner or later -- probably sooner -- the talks will begin. Progress, however, will be painfully slow, filled with breakdowns. Don't expect a settlement soon, final compromise maybe a year away.

First phase of the conference will be on a forced upbeat note. Kissinger will likely be there, the Russians & a UN presence, too. Business-suited Israelis will mingle with white-robed Arab sheikhs.

The speeches over, the hard-core issues will then surface: "secure" borders for the Israeli state, "rights" of Palestinians, who rules Jerusalem, the Golan Heights, the Jordan West Bank, etc. Deep and fervent as are the antagonisms between Arabs & Israelis, they're matched by conflicting interests of the Arabs themselves.

On their face, these issues doom the conference to failure. Something, however, has happened in the Mideast that says "not so."

The Arabs have finally faced up to coexisting with Israel -- not gladly, not for militants like Libya, Iraq, the terrorists. The man behind this memorable shift was Saudi Arabian King Faisal. His oil shutoff of the U.S. not only gave him decisive influence, but the argument that the less-militant Arabs couldn't resist -- oil AND bargaining will now succeed where fighting never could.

Faisal skillfully put together a "moderate" Arab coalition: Egypt, Syria, Jordan, the Persian Gulf states, most Palestinians. He has made himself the man of the hour for the majority of Arabs. And, petroleum squeeze or not, he's the man the U.S. works with.

Saudi's oil spokesman, Yamani, too, has hinted compromise. He says that turning on more petroleum for the U.S. can be phased. That is, concessions by Israel will be matched by more Arab oil. It's a powerful argument, also a sign of the new Arab subtlety.

Israel has also faced the dilemma of giving up Arab lands. Some of this was of course the result of U.S. arm-twisting tactics. More than that, though, is her own recent bout of soul-searching.

Israeli "hawks" are still vowing "no concessions, fight on." That feeling reflects the country's fury with the Yom Kippur war, the battles won that bring no peace -- and the dead and wounded.

This hawk sentiment imperils the concession-minded Meir gov't, in the Dec. 31 election, but it's doubtful that much would change. Negotiation is an idea whose time, however reluctantly, has come.

The latest Harris poll on public confidence: The trend is up. Don't be misled by media reading of results as a loss of trust. Only the Executive branch plummeted; other institutions moved up.

The poll is important, must be viewed in its real context. Harris first measured public confidence in U.S. leadership in '66, found trust in major institutions like business, gov't etc. high. Medicine, education, military, finance all scored well above 60%.

Five years later the fabric shredded -- everything was down. Trust in finance was halved, the military lost a whopping 35%, more than half its support. Education dropped 24%, business 28%. Labor, the press, television, religion, the courts lost heavily.

A year later poll readings seemed equally glum in some areas. Medicine for the first time lost the confidence of the majority. Education continued to slide, so did newspapers and television. But careful study showed bright spots too, as we reported then. Finance, the military, the executive, the courts came back a bit.

Now just a year after Watergate, at a time of high inflation, the Mideast war, energy crisis and shortages of so many things, the trend has been reversed, confidence in institutions is rising.

Trust in the press & TV rose the most sharply in the past yr., up from 17% to 40%, 18% to 30% respectively. Education is No. 2, right behind medicine which again commands the majority's faith. Even labor, a consistent low scorer, is close to its '66 rating.

Business can take mild cheer from its own, modest recovery, up two points from the 27% it polled in the two preceding years. That's still a far cry, however, from the 55% rating won in 1966.

But the most significant result remains the rise in trust, despite a year of shocks that could have destroyed all confidence. There was a remarkable gain in each area of American life but one. It's too bad the results weren't reported that way in the media.

Sol Sanders
EDITOR

Research Institute of America
852 NATIONAL PRESS BUILDING
WASHINGTON, D. C. 20004
(202) 393-1188